



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
*Director*

## MINUTES REGULAR MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, February 19, 2010  
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:35 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

### **1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. David Byers, Chair  
Mr. Tom Connelly, Vice-chair  
Mr. Jaime Gutierrez  
Mr. Chris Harris  
Mr. Jim McLaughlin  
Dr. Keith Meredith  
Mr. Michael Townsend  
Mr. Larry Trachtenberg  
Mr. Steve Zeman

Absent: Mr. Jim McLaughlin

A quorum was present for the purpose of conducting business.

### **2. Presentation, Discussion and Appropriate Action Regarding the Arizona State Retirement System's Comprehensive Annual Financial Report (CAFR) for FY 2009**

Mr. Corey Arvizu, Partner, and Mr. Neil Galassi, Audit Manager, Heinfeld, Meech & Company, P.C., presented an unqualified Independent Auditor's Report for the fiscal year ending June 30, 2009, on the ASRS financial statements that collectively comprise the ASRS' basic financial statements in the CAFR. An unqualified report means that the ASRS financial statements present fairly, in all material respects, the net assets of the ASRS as of June 30, 2009, and the changes in net assets for the year ended in conformity with accounting principles generally accepted in the United States of America. Mr. Arvizu and Mr. Galassi said the audit took over five weeks of on-site work. They expressed appreciation for the cooperation of ASRS staff.

### **3. Presentation Regarding Special PRIDE Recognition**

Mr. Paul Matson, Director, and Mr. Anthony Guarino, Chief Operations Officer and Deputy Director, presented a special PRIDE Award to the participants of the 2009 Custodial Bank Conversion Project in recognition of the Poise, Professionalism, Teamwork and Commitment to Excellence demonstrated in successfully completing this complex and challenging effort. The members of the Custodial Bank Conversion Project Team are Andriana Valentino, Bob Wittsell, Carrie Waith, Dave King, Debbie Kochert, Eric Glass, Gayle Williams, John Doran, John G. Maczko, Joseph Bonno, Jothi Beljan, Julie Walker, Kanchan Nainani, Lisa Hanneman, Lisa King, Liz Rozzell, Lupita Breland,

Meskel Assefa, Nancy Bennett, Rochelle Witharana, Sarah Wadsworth, and Tonia Nemecek.

Mr. Matson also expressed appreciation of the Financial Services Division (FSD) for their recently completed mural in the 10<sup>th</sup> floor lobby area of the Phoenix ASRS offices. He noted the FSD team members painted the mural on their own time and contributed the paint for the project. The Employee Committee contributed the plaque, which reads: "Planted in January 2010 by Financial Services Division staff in honor of our members. Lead artist: Tracy Rundle, designers: Andrew Watkins, Don Crockett."

#### **4. Approval of the Minutes of the December 18, 2009 Regular Session of the ASRS Board and the January 14, 2010 Informational Session of the ASRS Board**

**Motion:** Mr. Steve Zeman moved to approve the minutes of the December 18, 2009 Regular Session of the ASRS Board and the January 14, 2010 Informational Session of the ASRS Board.

Mr. Tom Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

#### **5. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Gloria Porras' Retirement Benefit Calculation**

Ms. Gloria Porras was not present at the Board meeting.

**Motion:** Mr. Michael Townsend moved to accept the ruling of the Administrative Law Judge with the following corrections to the Recommended Decision: Paragraph 15 should read, "The \$2,183.39 was used by Ms. Porras to repurchase 1.07 years of service. Paragraph 17 should clarify that the 1.85 years of service was purchased with both rollover monies and a payroll deduction agreement.

Mr. Chris Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

#### **6. Presentation, Discussion and Appropriate Action Regarding the 2010 Legislative Session**

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Sorensen addressed the Board regarding the 2010 Legislative Session. Ms. Sorensen gave a general update highlighting bills of interest. Ms. Sorensen also pointed out that Mr. Michael Townsend was recently nominated to retain his position on the ASRS Board.

#### **7. Presentation, Discussion and Appropriate Action Regarding the Details and Implications of National Health Care Reform**

Mr. Klein addressed the Board regarding the details and implications of national health care reform as they may affect the ASRS. He explained, on November 7, 2009, the House passed the "Affordable Health Care for America Act," and on Christmas Eve the Senate passed its health care reform bill entitled the "Patient Protection and Affordable Care Act" and then on January 19, Scott Brown, a Republican in Massachusetts, was elected to fill the Senate seat held by Ted Kennedy, which changed the supermajority. Without the supermajority of a 60-seat vote, Democrat progress towards national health care reform is no longer guaranteed. Mr. Klein gave a presentation summarizing what the Senate and House bills propose. Currently, he said, neither legislation is moving forward and Congress is rethinking much of this. Mr. Klein stated it

is generally believed that some reform will occur and its genesis will come from the Senate and/or House bills.

**8. Presentation, Discussion and Appropriate Action Regarding the New Defined Contribution Plan(s)**

**a) Vendor Selection**

**b) Vendor and Product Model**

Mr. Klein addressed the Board regarding the New Defined Contribution Plan(s). During the Arizona Forty-ninth Legislature - First Regular Session in 2009, Senate Bill 1196 was enacted into law and became effective on September 30, 2009. This bill allows the ASRS to establish a Supplemental Salary Deferral Plan (SSDP) to provide public employees, other than state employees, an opportunity to save additional tax-deferred monies for retirement. The bill also allows the ASRS to employ third-party services for the operation and administration of the plan.

A Request For Proposal (RFP) to provide administrative services, investment products and education services for the ASRS' SSDP was issued on October 21, 2009, and a pre-proposal conference was held on October 30, 2009.

Mr. Klein said six proposals were submitted by the due date and included one each from AXA Equitable, Great-West Retirement Services, ING, Nationwide Retirement Services, Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), and VALIC.

Mr. Klein explained, the RFP Evaluation Committee, consisting of Mr. Steve Zeman, Operations Committee (OC) Chair, Mr. Paul Matson, Director, Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, and Mr. Klein, met several times to evaluate the RFP responses. The Evaluation Committee's recommendation was presented to and accepted by the OC at the February 18, OC meeting

Mr. Klein said an SSDP Management Committee has been established to oversee administration, customer service, future vendor hiring and termination, and investments (adding and removing choices). The Committee consists of the ASRS Director, the ASRS Chief Investment Officer, the ASRS Deputy Director and Chief Operations Officer, and the Assistant Director of the External Affairs Division.

Mr. Matson noted he expects the SSDP Plan Document(s) will be drafted and the investment option recommendations will be presented to the Board for approval prior to June 30, 2010.

**Motion:** Mr. Steve Zeman moved to accept the Operations Committee's recommendation with respect to vendor selection and plan model.

Dr. Keith Meredith seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Mr. Matson informed meeting attendees that Mr. Byers was instrumental in this effort.

Mr. Klein announced that Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) is the vendor for the new SSDP Plan.

**9. Presentation, Discussion and Appropriate Action Regarding the Arizona Attorney General's Formal Opinion on System Member Benefits**

Mr. Matson addressed the Board regarding the Arizona Attorney General's (AG) Formal Opinion on System Member Benefits. Mr. Matson explained, on November 24, 2009, the Attorney General issued its formal legal opinion, containing three important points:

1. Article 29 of the Arizona Constitution, which was passed by voters in the 1998 General Election, prevents reductions from being made to System annuity payments.
2. As a result of legislation passed in 1980, the Plan trust fund is liable for shortfalls to monthly benefit payments for System members who retired on or after July 1, 1981.
3. The State of Arizona is liable for shortfalls to monthly benefit payments for System members who retired before July 1, 1981.

Mr. Matson noted the following nine key decisions resulting from this opinion:

1. Should the Board accept the legal opinion of the Attorney General?

Mr. Matson said the Board voted to accept the legal opinion on December 18, 2009, but this does not mean others will accept the legal opinion.

2. What are the agency's obligations and plan of action with regard to the administrative rules already in place?

There are currently seven Administrative Rules related to the System:

Mr. Matson said it is not appropriate for rules to govern actuarial policies, because it can take a year to change rules.

3. What process will the agency use in the future to determine when System members will receive an increase to their 13<sup>th</sup> check?

A rule is currently in place, which states that System members are eligible to receive an increase based on the funded status (105 percent or higher of market value) and at the discretion of the Board. This rule may no longer be relevant, which will require a new methodology to be developed.

4. How many groups of System members are there, and do they need to be accounted for separately?

- A. System members who retired before July 1, 1981.
- B. Plan members with rights to a System benefit (System members who retired on or after July 1, 1981, when the law transferred non-retired System members into the Plan).
- C. Plan members with rights only to receive a refund of their remaining unvested System account balances (a.k.a. green bar accounts).

Mr. Matson said staff has developed several methodologies for how assets and liabilities should be allocated between the different groups, but is not yet prepared to make a recommendation.

5. Are multiple asset allocations required for the different groups? Should any adjustments be made to the asset allocation of the System?

Mr. Matson pointed out it may be best to have a separate asset allocation for each of the three groups identified in #4, above. Although this approach appears to be the most precise, it is also the most complex and costly to administer, particularly for the size of each of the three groups that would be created.

6. Is the System, in effect, now a Defined Benefit Plan? If so, what are the ramifications?

Mr. Matson said the System is a defined contribution plan with guarantees.

The Attorney General Opinion determined that due to the 1998 Arizona Constitutional Amendment, the non-guaranteed portion of a System benefit could not be reduced. It did not change the design of the System.

Although the AG Opinion may necessitate that the agency account for System assets and liabilities in a manner similar to a defined benefit plan (see #7), agency communications will likely continue to differentiate between the System and the Plan in the way it has in the past, making modifications only with respect to the impact of the AG opinion.

7. Are the Plan (and the State), obligated to fund the liabilities of the System?

It must be determined whether, due to the guaranteed nature of System benefits, the ASRS will now be required to account for System liabilities in accordance with GASB 27 rules for defined benefit plans. If it is determined that this is required, the Plan may need to incorporate its portion of System liabilities into the yearly calculation of the Annual Required Contribution (ARC).

8. How will Plan (and State) contributions be determined?

Depending on the answers to the previous questions, liabilities for Plan members with rights to a System benefit may be required to be incorporated into the liabilities for the development of the Plan contribution rate.

The State of Arizona will likely make its own determination for its apparent portion of the System liabilities.

9. If an overfunded status exists when each of the three groups identified in #4 above have only one remaining member or have no remaining members, how will it be handled?

While staff is not prepared to make a recommendation at this time, when evaluating this issue it seems prudent to consider whether the remaining assets should revert to the entity responsible for making up any System funding shortcomings.

Upon initial review it appears:

- Pre-July 1, 1981 retiree System assets may revert to the State.
- July 1, 1981 and later retiree System assets may revert to the Plan.
- Green Bar account assets may be handled via the escheatment process.

Mr. Matson expects to present an update to the Board by June 30, 2010.

## **10. Presentation, Discussion and Appropriate Action Regarding the Governance Handbook Annual Responsibilities**

Mr. Matson addressed the Board regarding the Governance Handbook Annual Responsibilities, noting the Board met key responsibilities for 2009. He also provided highlights of additional Board requests and the results of staff follow-up to these requests.

## **11. Director's Report**

Mr. Matson stated there has been greater demand on the call center and the ASRS has and will

continue to reallocate resources to respond. He emphasized the ASRS is not in an environment where the solution can simply be the hiring of new staff. Mr. Byers asked Board members if they wanted to lower the performance standards relating to this. The Board did not want to do so. Mr. Matson said staff does not want to lower standards either, and indicated that resource reallocations and process reviews would be focused on, but this is an issue that may need to be looked at again in six months.

Mr. Matson said the Pew Center on the States, a division of the nonprofit Pew Charitable Trusts, recently released a comprehensive report noting that Arizona is among the highest rated states for the funding level of retiree health insurance. The report stated that, "Arizona is a national leader in managing its long-term liabilities for both pensions and retiree health care and other benefits." Mr. Matson said Arizona is in the median range for pension funded status.

Mr. Byers said a member of the public had requested to speak regarding the PEW report, and he asked her to come forward. Ms. Janet Fee addressed the Board on behalf of all schools, complimenting the Board and Mr. Matson for diligently working to protect members' benefits and pensions.

## **12. Possible Presentation Regarding Board Committee Updates**

Mr. Jaime Gutierrez, Chair, External Affairs Committee (EAC), said the next EAC meeting will take place March 5, 2010. The EAC is waiting for the Legislature to finish dealing with the State budget before ASRS items will be addressed.

Mr. Tom Connelly, Chair, Investment Committee (IC), said the next IC meeting will take place March 15, 2010 at 2:30 P.M. The IC will discuss governance issues regarding asset class committees and commodities.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting will take place April 22, 2010 at 10:30 A.M. The health insurance contract and refunds will be discussed.

## **13. Call to the Public**

No additional members of the public requested to speak.

## **14. New Agenda Items**

There were no requests for new agenda items.

**15. The next ASRS Regular Board meeting is scheduled for Friday, March 19, 2010, at 8:30 A.M., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

## **16. Adjournment of the ASRS Board**

Mr. Byers adjourned the Board meeting at 10:43 A.M.

ARIZONA STATE RETIREMENT SYSTEM

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Lisa Hanneman  
Board Secretary

Date

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Paul Matson  
Director

Date